

Media advisory

1 December 2017

FONTERRA ANNOUNCES OUTCOME OF DANONE ARBITRATION

The tribunal in the arbitration with Danone on claims arising out of Fonterra's WPC80 precautionary recall in August 2013 has issued its award. The tribunal has determined that Fonterra must pay a total of NZD \$183 million (€105 million) in recall costs suffered by Danone.

In reacting to the announcement, Fonterra's CEO, Theo Spierings, said "We are disappointed that the arbitration tribunal did not fully recognise the terms of our supply agreement with Danone, including the agreed limitations of liability, which was the basis on which we had agreed to do business."

Fonterra has assessed the potential financial implications of the decision and made a prudent decision to revise its forecast earnings per share range for the 2017/18 financial year to 35 to 45 cents, down from 45 to 55 cents.

The decision has no impact on the forecast Farmgate Milk Price.

The arbitration followed events in August 2013 when Fonterra issued a precautionary recall advice to some customers who had been supplied with its WPC80 ingredient and products containing WPC80. It was later confirmed that there had been no food safety risk to the public.

Both Fonterra and the New Zealand Government conducted extensive reviews into the events. A follow-up review by the Independent Inquiry commissioned by the Fonterra Board of Directors confirmed that the Co-operative's management acted in the best interests of its consumers and the Co-operative at all times.

"The decision to invoke a precautionary recall was based on technical information obtained from a third party, which later turned out to be incorrect.

"While there was never any risk to the public, we have learned from this experience and as a result have made improvements to our escalation, product traceability and recall processes, and incident management systems.

"We operate in a fast-changing and complex industry, and will always prioritise Food Safety and Quality in our commitment to be the world's most trusted source of dairy nutrition.

"Fonterra is in a strong financial position and is able to meet the recall costs," said Mr Spierings.

The Co-operative was reviewing the tribunal's findings closely, but recognised that there was likely to be limited options for challenging the decision of an international arbitration.

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About Fonterra

We're a global dairy nutrition company owned by 10,500 farmers and their families. We've built our expertise on the legacy of the thousands of farmers who've made New Zealand a world leader in dairy. With a can-do attitude and a collaborative spirit, we're a world leading dairy exporter. Our 22,000 people share the goodness of dairy nutrition with the world through our innovative consumer, foodservice and ingredient solutions brands, and our farming and processing operations across four continents.

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